

## Increasing the Quality of people and technology, supporting the future of social infrastructure and industrial advancement, and creating a better lifestyle for people going forward.

My name is Takeshi Miida, and I took on the role of Representative Director and President in June 2018. Since its establishment in 1897, Meidensha has produced a range of technologies, products, and services and contributed to the development of a sustainable society in its role as a manufacturer. In 2017, it celebrated its 120<sup>th</sup> anniversary. I would like to once more express my gratitude for the many customers that have given Meidensha their trust and their patronage.

Last year, the Meiden Group formulated its new corporate slogan, “Quality connecting the next,” based on the Group’s corporate philosophies of “Illuminating a more affluent tomorrow” and “For customer peace of mind and satisfaction.” We aim to increase the quality of people and technology, support the future of social infrastructure and industrial advancement, and create a better lifestyle for people going forward.

In 2018, we formulated “Medium-term Management Plan 2020” as a “powerful step” for a jump. Amid the changing business environment, we will increase the scale of growing businesses, such as the overseas transformer and railway business and the automobile-related business, and use IoT and AI technology to create new value, with the aim of becoming a company that grows even further.

**Takeshi Miida**

Representative Director and President

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**Looking Back on Fiscal 2017**

We worked to strengthen the earnings base of the Group's business in Japan and expand the overseas business, which resulted in sound performance for the Group.

**Looking back on fiscal 2017, how do you think it went?**

Looking back on the previous fiscal year, I feel that it was a year in which the Japanese economy continued its mild recovery, with factors such as improved business performance and increased capital investment. On the other hand, if you look at the global economy, although the outlook is unclear with factors such as US policy and geopolitical risks relating to the Korean Peninsula and the Middle East, the US economic recovery is continuing, and signs of economic recovery can be seen in the Asian region.

Against this backdrop, the Meiden Group has devoted its energy to increasing product competitiveness and thoroughly promoted "strengthening the earnings base of the Group's business in Japan" in the Japanese infrastructure business, and worked towards "expanding the overseas business" in accordance with the growth of developing countries, with an eye to accomplishing the V120 Medium-term Management Plan, which was in its final year.

As a result of the above, the Meiden Group's results were as follows: Consolidated sales amounted to ¥241.832 billion (up 9.9% year on year); operating income amounted to ¥11.381 billion (up 28.6% year on year); ordinary income amounted to ¥9.992 billion (up 21.7% year on year); and net income attributable to owners of parent totaled 7.056 billion (up 22.9% year on year).

In major managerial indicators, compared to the previous period, our equity ratio rose 0.7 points to 30.3%, ROE rose 1.0 points to 9.2%, and ROA based on operating income rose 0.9 points to 4.4%.

**Overview of V120 and the Business Environment**

We were able to thoroughly improve results, based on the basic policies of "enhancing the product competitiveness," "strengthening the earnings base of the Group's business in Japan" and "expanding the growth of overseas business."

**Please give us an overview of V120.**

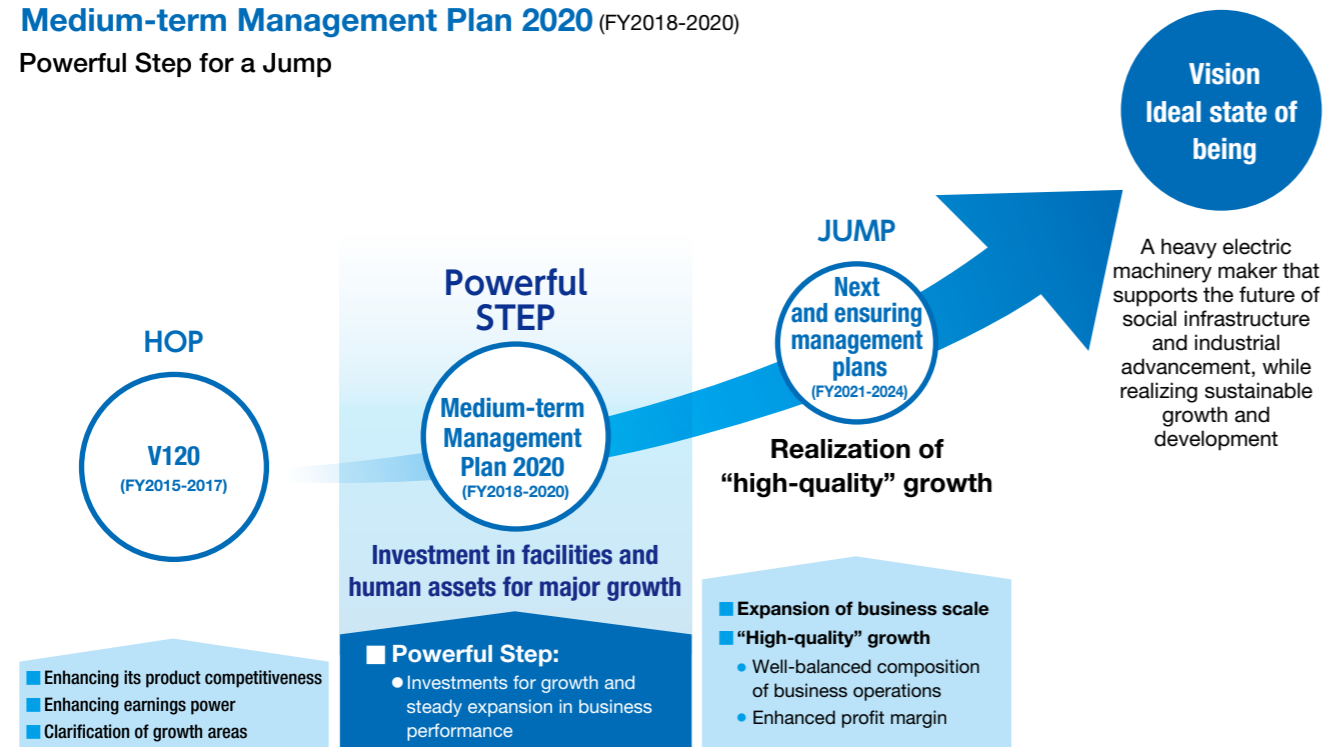
Under the V120 Medium-term Management Plan (fiscal 2015 to fiscal 2017), we listed "enhancing the product competitiveness," "strengthening the earnings base of the Group's business in Japan" and "expanding the growth of overseas business" as aims, and continuously worked to implement key measures such as "developing new business partnerships" and "giving direction to the business," which led to solidly improved results.

As a result, we have achieved solid growth by creating world-acclaimed products through enhancing product competitiveness, receiving increased orders in the hydroelectric-related business and the maintenance and servicing businesses, promoting partnerships, such as those with Prime Meiden Ltd. in India, and Tridelta Meidensha GmbH in Germany, and achieving an overseas sales ratio of 30% for the overseas business.



**Medium-term Management Plan 2020 (FY2018-2020)**

**Powerful Step for a Jump**



**What do you think about the business environment in which the Meiden Group operates?**

The Group faces various market factors today. In the Japanese market, there has been a steady demand for renewing or extending the lifespan of aging facilities and for installing energy-saving equipment at the existing facilities, while demand for new projects is on the decline owing to the nation's shrinking population and other factors, exerting downward pressure on the prices of products. With regard to the public sector, municipal governments are diversifying how they provide their infrastructure services, such as collaborating with neighboring municipal governments or the private sector to provide such services together.

In the overseas market, demand for infrastructure such as electricity, railways, water supply, and sewerage continued to grow in developing countries, particularly in Asia, due to population growth and urbanization.

Furthermore, global trends such as stricter environmental regulations, the advent of automobile digitalization and electric vehicles, and the advancement of technologies related to the Internet of Things (IoT) and artificial intelligence (AI) present prime opportunities for the Group to expand its businesses. It is necessary for the Group to study how these trends will unfold and respond to them soundly and swiftly.

**Medium-Term Management Plan 2020: A "Powerful Step" for a Jump**

We have designated the current phase as a "powerful step" towards a future "jump" forward, and we are investing in future growth and steadily increasing performance.

**Medium-term Management Plan 2020 has been put in place. Please tell us about the concept behind it.**

Meidensha has now commenced implementing Medium-term Management Plan 2020, which covers the three-year period from fiscal 2018 to fiscal 2020. Under Medium-term Management Plan 2020, which is defined as the phase "powerful step" the Group will proactively invest and take measures to make its facilities, human assets, research and development, and strengthening business partnerships with other more robust parties.

In the "jump" phase that follows the current management plan, the Group aims to attain "high-quality" growth by realizing a balanced composition of different businesses and enhancing the overall profit ratio.

**Please tell us about the basic policies of Medium-term Management Plan 2020.**

As basic policies under the current medium-term management plan, the Group categorizes its business areas into the following three to attain optimal distribution of its resources and will implement necessary strategies for each of them:

The first area is "growth businesses." The Group defines businesses for which markets are expected to grow further, including overseas and automobile-related businesses, as "growth businesses" and will proactively divert resources to these domains to ensure their expansion.

The second area is "earnings-base businesses." The Group defines businesses that serve as a base to generate earnings in a stable manner as "earnings-base businesses," which include the water treatment/public infrastructure, electric power/renewable energy and maintenance/servicing businesses. The Group aims to sharpen its earnings power by revamping its business models and improving its productivity.

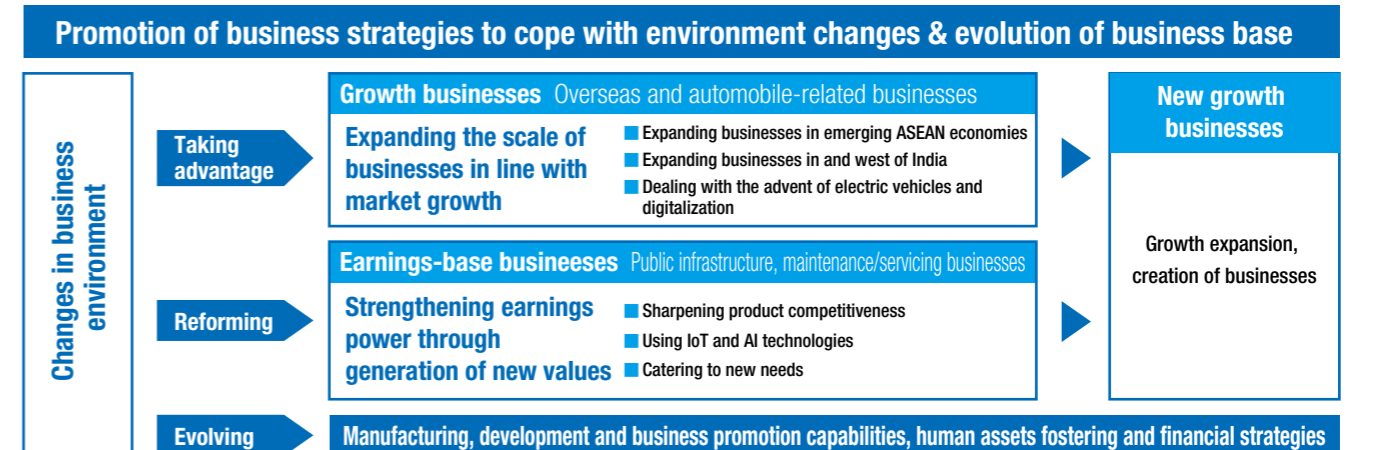
The final area is "new growth businesses." The Group will make investments into businesses associated with semiconductor manufacturing equipment—new growth businesses which are expected to grow further—and try to generate new enterprises.

Based on these policies, we will make proactive investments and work to enhance earning potential with the aim of further increasing corporate value.

**What about the strategies in each business segment?**

**(1) Social infrastructure business segment**

With regard to growth businesses, the Group's strategies in the overseas electric power field are as follows. It will aim to enter the electric power markets in Southeast Asia by further advancing partnerships with local companies in the region—efforts which have been made since the previous medium-term management plan. It will concentrate on expanding the sales of its world-acclaimed products, such as vacuum circuit breakers and surge arresters in European and North American markets. Furthermore, Prime Meiden Limited, an India transformer manufacturer that is now a consolidated subsidiary of the Group, will play a leading role in carrying out the strategies in India, by accelerating efforts to enter local electrical power utility markets and to win contracts for high-speed rail projects. It also aims to enter markets west of India. In the overseas railway field, the Group will steadily carry out large projects, including work to renew facilities that are part of Singapore's MRT North-South and East-West lines. It will also try to strengthen its corporate preparedness to cope with vigorous future demands for urban transportation and high-speed railways.



With regard to earnings-base businesses, the Group will try to reduce the cost of products through discontinuous innovation or drastic changes in design, materials and manufacturing processes and revamp its business models for business operations in water treatment, public infrastructure and electric power/renewable energy. It will aim to attain automation and labor-saving in operational control by pairing its accumulated product data and know-how with IoT and AI technologies. It will also aim to beef up its capability to make proposals and build a corporate structure to better cater to the new needs of municipal governments. Many such entities are now providing infrastructure services together with neighboring municipal governments, engaging in cross-field endeavors in energy and water projects and tying up with the private sector. In its business operations catering to the private sector, the Group will try to ensure that it better meets demands by a drastic reduction in the cost of high-voltage, low voltage switchgear and improved business promotion efficiency through cooperation with the maintenance and servicing business operations.

## (2) Industrial systems business segment

With regard to growth businesses, In the automobile-related field, the Group will aim to win new mass production contracts by making capital investments to cope with increased production of motors and inverters for electric vehicles and strengthened manpower for product development. In the automotive testing systems business, it will strengthen its engineering capabilities that can deal with the proliferation of electric vehicles, digitalization of vehicles and introduction of model-based development by promoting its partnership strategy, while pursuing the synergy effects with its motor and inverter business for electric vehicles.

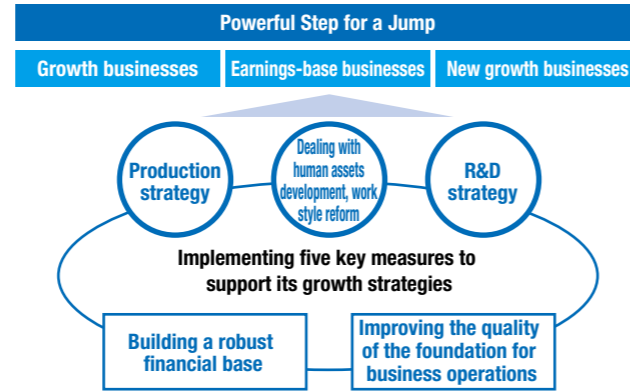
With regard to earnings-base businesses, in the industrial motors and drives business, the Group will boost the earning power of existing products while creating new products through partnerships or other means. In the automated guided vehicle systems business, the Group will collaborate with a system integrator to generate world-acclaimed products for improved earning power.

With regard to new growth businesses, in the field related to semiconductor manufacturing equipment, the Group will continue capital investments to deal with increased production demand, as the market is projected to make steady growth. It will also try to secure growth by developing new products. The Group projects continued growth in the market for ceramic flat membranes, thanks to increased demand for reclaimed water and strengthened environmental regulations. It will aim to expand the business by strengthening its sales structure in collaboration with other companies.

Furthermore, it will aim to create new growth businesses through operations by the Business Development Division, which was established in April 2017, as well as its Silicon Valley Office set up in August 2017.

## (3) Maintenance and servicing business segment

In the maintenance and servicing business, the Group will provide one-stop services based on life cycle engineering. It will also try to develop this business into facility management business at a time when Japan's population is declining and municipal governments are increasingly experiencing financial dire straits. It plans to provide preventive maintenance services through enhanced fault prediction and detection technologies that use IoT and AI, as well as the provision of low-cost, labor-saving, maintenance and servicing operations.



### — Please tell us about key measures.

In order to affect our strategies, we are implementing specific measures in the five key areas of “production strategy,” “human assets development and work style reform,” “research and development strategy,” “building a robust financial base,” and “improving the ‘quality’ of the foundation for business operations.”

#### (1) Production strategy

The Group will make capital investments to expand the scale of operations or to increase production in the growth and new growth businesses. For example, it will introduce automated production for high-volume products and automated inspection processes to enhance its productivity. In the earnings-base businesses, the Group will concentrate on boosting earning power for system products. It will sharpen the competitive edge of its products by building so-called smart plants with the use of IoT and AI, making investments in automated product design, etc. and optimizing the supply chains.

#### (2) Human assets development and work style reform

The Group will further strengthen the development of human assets, as the basis for supporting business development. It will institute improved technological training, use overseas training centers and promote exchanges with national staff members in overseas operations to foster next-generation human assets for the Group.

Firstly, in the “growth businesses”, the Group will concentrate on nurturing national staff members engaged in overseas railway projects or securing or nurturing human assets capable of developing motors and inverters for electric vehicles, whose market is expected to grow. In the “earnings-base businesses”, the Group will build a cross-sectional business promotion regime, develop human assets for business promotion and enhance its capability for making business proposals.

The Group will tackle work style reform by stipulating a new action plan, called “Smart Work 2020.” It will reform the production processes and invest in the streamlining of facilities and increase productivity through the use of robotic process automation, while taking steps to realize diversity in the workplace, including expanded or improved support systems for child rearing and nursing care.

#### (3) Research and development strategy

While reaping the fruits from the “V120”, the Group will further strengthen basic and product technologies with the aim of generating next-generation products and systems.

The Group will concentrate on developing new products by diverting resources to the “growth businesses” related to the overseas power generation and automobile sectors, while boosting its digital technologies associated with IoT and AI, etc.,

to give new added values to the “earnings-base businesses.” In addition, to speed up research and development, the Group will introduce new methods, such as front loading design and model based development. At the same time, the Group will use its Silicon Valley Office and strengthen tie-ups with outside research institutes to promote open innovation.

#### (4) Building a robust financial base

For a further leap forward, the Group will proactively make necessary investments. At the same time, it will realize a robust financial base by enhancing its net worth through improvement of its earning power and by boosting its cash generation capability through the streamlining of its assets to build a foundation for a sustainable growth. In addition, it will diversify fund procurement methods to ensure the Group has a stable financial base.

To realize the above, the Group will set financial targets and make all-out efforts to have a solid financial base to attain these targets.

#### (5) Improving the “quality” of the foundation for business operations

The Group will make continued efforts to improve the quality of products, systems, and services as a corporation that supports social infrastructure. In addition, it will proactively improve the “quality” of activities that serve as the foundation for business operations, such as the eradication of industrial accidents and full implementation of corporate governance.

Furthermore, Goal 13 of SDGs (Sustainable Development Goals) is “climate action,” which we understand is a major management issue facing the Company, and the Group has been promoting environmental conservation by offering eco-friendly products and services at a time when the world faces threats of natural resources depletion and global warming. Going forward, the Group aims to slash the emissions of global warming gases associated with its business operations by 30 percent from the fiscal 2017 level by the end of fiscal 2030 through the eco-conscious operations mentioned above. The Group will aim to materialize ideas infused into its corporate slogan, “Quality connecting the next,” through the aforementioned activities.

#### — What about the financial targets?

The Group will aim to achieve ¥280 billion in net sales, ¥14 billion in operating income, ¥13.5 billion in ordinary income and ¥9.4 billion in current net income attributable to owners of parent in fiscal 2020, the last year in Medium-term Management Plan 2020. It has set the following targets: a return on equity (ROE) of 10%, a return on invested capital (ROIC) of 7% and an operating profit margin of 5%. Achieving these targets, the Group will realize highly efficient management, make investments for a leap forward and build robust financial base.

#### ■ To Our Stakeholders

Aiming to be a company that is trusted and needed by society

#### — Finally, please send a message to our stakeholders.

The resources for value creation, and the strengths of the Meiden Group, are a powerful sense of duty to support the social infrastructure that has been developed through longstanding relationships with our customers, connections such as our customer network and cooperation within the group, and speedy and flexible responsiveness to the wishes and issues of our customers. Going forward, we aim to maximize corporate value by continuing and further developing these three strengths.



We will continue to actively challenge ourselves to create new technologies and new value, in order to contribute to the realization of a more affluent and environmentally conscious society.

#### Financial targets (consolidated)

	(In billion yen)		
	Fiscal 2017 (results)	Fiscal 2018 (forecast)	Fiscal 2020 (targets)
Net sales	241.8	245.0	280.0
Operating income	11.3	11.5	14.0
Ordinary income	9.9	10.8	13.5
Current net income attributable to owners of parent	7.0	7.5	9.4

	(In billion yen)			
	Fiscal 2017 (results)	Fiscal 2018 (forecast)	Fiscal 2020 (targets)	
Social infrastructure	Net sales	147.0	142.0	157.0
	Operating income	4.0	3.5	4.8
Industrial	Net sales	56.0	63.0	77.0
	Operating income	4.3	4.9	5.5
Maintenance and servicing	Net sales	33.9	35.0	39.0
	Operating income	3.5	3.8	4.4
Real estate	Net sales	3.4	3.5	3.5
	Operating income	1.3	1.3	1.3
Others	Net sales	1.3	1.5	3.5
	Operating income	(2.0)	(2.0)	(2.0)
Total	Net sales	241.8	245.0	280.0
	Operating income	11.3	11.51	14.0

#### Profitability

	Fiscal 2017 (results)	Fiscal 2018 (forecast)	Fiscal 2020 (targets)
ROE	9.2%	9.2%	10%
ROIC	—	—	7%
Operating profit margin	4.7%	4.7%	5%

#### Investment Plan

	Fiscal 2017 (results)	FY 2018–2020 Cumulative amount over three years
Capital investment	¥7.5 billion	¥30 billion
Growth investment budget	¥0.5 billion	¥20 billion
Research and development expenditure	¥9.4 billion	More than ¥30 billion

#### Net worth / Dividend ratio

	Fiscal 2017 (results)	Fiscal 2020 (targets)
Net worth	¥80.2 billion	¥100.0 billion
Consolidated dividend payout ratio target	28.9%	Stably at 30.0%